

Message Text

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ACTION EB-07

INFO OCT-01 AF-10 ARA-10 EUR-12 EA-10 NEA-10 ISO-00 FEA-01

AEC-07 AID-05 CEA-01 CIAE-00 CIEP-02 COME-00 DODE-00

FPC-01 H-02 INR-07 INT-05 L-02 NSAE-00 NSC-05 OMB-01

PM-03 RSC-01 SAM-01 OES-05 SP-02 SS-15 STR-04 TRSE-00

FRB-01 PA-02 USIA-15 PRS-01 /149 W

----- 018397

R 182129Z NOV 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 5774

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

AMEMBASSY BEIRUT

AMEMBASSY CARACAS

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY ROME

AMEMBASSY TEHRAN

AMEMBASSY TRIPOLI

AMEMBASSY LAGOS

AMEMBASSY MUSCAT

AMEMBASSY QUITO

USMISSION OECD PARIS

UNCLAS SECTION 01 OF 02 LONDON 15032

BEIRUT FOR BAGHDAD; KUWAIT ALSO FOR DOHA

E.O. 11652: N/A

TAGS: ENRG

SUBJECT: FINANCIAL TIMES REPORTS SAUDIS TO PUT MORE OIL
ON MARKET

1. NOVEMBER 18 FINANCIAL TIMES CARRIES ARTICLE BY DAVID

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HOUSEGO, DATELINED JIDDA, NOVEMBER 17, REPORTING ON SAUDI

INTENTIONS TO SELL DIRECT 2-3 M/B/D IN EFFORT TO CARRY THROUGH DECLARED SAG POLICY OF LOWERING PRICES.

2. TEXT FOLLOWS: QUOTE: THE SAUDI ARABIAN GOVERNMENT IS NOW WORKING ON THE DETAILS OF A SUBSTANTIAL OFFER OF OIL BY DIRECT SALE AS SOON AS POSSIBLE. THE INTENTION IS TO MAKE A SUFFICIENTLY SIGNIFICANT IMPACT ON THE WORLD MARKET AS TO CARRY THROUGH THE SAUDIS' DECLARED POLICY OF LOWERING PRICES.

THE LIKELY VOLUME WILL BE BETWEEN 2-3M. BARRELS A DAY. THIS, IT IS BELIEVED HERE, WOULD BE THE LARGEST QUANTITY OF OIL EVER OFFERED BY AN EXPORTING NATION IN A SINGLE DIRECT SALE AND EQUIVALENT TO MORE THAN BRITAIN'S ENTIRE CONSUMPTION. THE CRUDE WILL COME FROM THE SAUDIS' 60 PER CENT SHARE OF THE PRODUCTION OF ARAMCO (THE ARABIAN AMERICAN OIL COMPANY) WHOSE TOTAL OUTPUT IS NOW RUNNING AT JUST OVER 8.5M. BARRELS A DAY.

SAUDIS ANTICIPATE THAT NONE OF THE ARAMCO SHAREHOLDERS - EXXON MOBIL STANDARD OF CALIFORNIA AND TEXACO - NOR ANY OF THE OTHER MAJORS WOULD BE ALLOWED TO PURCHASE. UNTIL NOW THE ARAMCO SHAREHOLDERS HAVE BOUGHT BACK FROM THE SAUDI GOVERNMENT VIRTUALLY ALL OF THE STATE OWNED CRUDE AND THE LOSS OF SUCH A MASSIVE VOLUME COULD MEAN DIFFICULTIES IN MEETING THEIR CUSTOMER OBLIGATIONS.

POTENTIAL BUYERS THEREFORE WILL BE EITHER INDEPENDENT OIL COMPANIES OR CONSUMER STATES ACTING DIRECTLY WITH THE SAUDIS, GIVING PREFERENCE TO DELIVERIES TO THEIR TRADITIONAL MARKETS. THE SAUDIS ARE READY FOR BOTH SHORT AND LONG TERMS CONTRACTS THOUGH THESE WILL BE SUBJECT TO AN ANNUAL PRICE REVIEW.

THE CRUDE WILL BE OFFERED AT A FIXED PRICE OF NOT MORE THAN \$10.46 A BARREL - EQUIVALENT TO 93 PER CENT OF THE NEW POSTED OR TAX REFERENCE PRICE ESTABLISHED BY THREE OF THE GULF STATES AT A CONFERENCE IN ABU DHABI LAST WEEK.

THIS MEANS A MINIMUM REDUCTION OF 38 CENTS A BARREL FOR

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R 182129Z NOV 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 5775

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

AMEMBASSY BEIRUT

AMEMBASSY CARACAS

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

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DIRECT SALES COMPARED WITH THE RATE BEFORE THE ABU DHABI MEETING WHERE THE SAUDI PROPOSAL FOR A NEW PRICING FORMULA WAS ALSO ACCEPTED BY ABU DHABI AND QATAR.

THE SAUDIS ARE HOPING, HOWEVER, THAT THE CUT WILL BE MORE THAN THIS. UNDER THE NEW FORMULA THE PRICE OF "BUY BACK" CRUDE TO THE MAJORS IS \$10.66 OR 94.8 PER CENT OF POSTINGS.

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THE SAUDI BELIEF IS THAT A COMBINATION OF THE PRICE AND VOLUME OF OIL THEY ARE PUTTING ON OFFER WILL, IN THE PREVAILING CIRCUMSTANCES OF A SURPLUS WORLD MARKET, RESULT IN A DOWNWARD PRESSURE ON REALISED PRICES. THEY EXPECT A HOSTILE REACTION FROM THE OTHER PRODUCER GOVERNMENTS TO THE SALE BUT SAY THERE ARE BOUND TO BE DIFFERENCES OF OPINION WITHIN OPEC.

IT IS TACITLY CONCEDED HERE THAT THE IMMEDIATE RESULT OF THE ABU DHABI DECISION HAS BEEN AN INCREASE IN SAUDI OIL REVENUE. ORDERS HAVE BEEN ISSUED HOWEVER BY THE GOVERNMENT THAT ANY INCREASES SHOULD ULTIMATELY BE REIMBURSED TO THE CONSUMER. END QUOTE.

FOLLOWON COMMENT BY ADRIAN HAMILTON STATES:

"A SALE AT THE PRICE OF \$10.46 PER BARREL WOULD NOT REDUCE THE AVERAGE PRICE OF OIL TO THE CONSUMER. INDEED IT WOULD CONFIRM THE 1P PER GALLON RISE IN COSTS WHICH SAUDI ARABIA AND ABU DHABI ESTABLISHED EARLIER THIS MONTH.

IT WOULD HOWEVER GO FURTHER ALONG THE PATH ALREADY PURSUED BY SAUD ARABIA OF REDUCING THE MARGIN BETWEEN AVERAGE OIL COMPANY COSTS OF OIL AND THE FREE MARKET PRICE."

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